

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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H.R. 2024 MISSES THE TARGET WHILE THREATENING INNOCENT PATENT OWNERS

H.R. 2024, the “End Anonymous Patents Act,” would do nothing to keep those who are abusing the patent system from continuing to do so. While H.R. 2024 would require disclosure of information relating to a patent’s ownership/controlling entity at certain specified times during the life of patent, persons who are so inclined may easily remain in technical compliance by providing correct but substantively-meaningless identifications. Those intent on gaming the system will easily work around the required disclosures and time frames to ensure that ownership, control and/or contractual interests will be concealed, and meaningful transfers sequenced, to achieve precisely the objectives H.R. 2024 is intended to frustrate. In the meantime, H.R. 2024 would disproportionately burden the inventor community, especially independent inventors, start-ups and small to medium sized businesses, who are least likely to effectively comply with such procedures. And worse, H.R. 2024 would punish even the slightest non-compliance with the unreasonable sanction of permitting infringers to completely avoid liability during any period when all of the technical requirements of the bill have not been met.

The Behavior Sought to Be Addressed by H.R. 2024

As the sponsors of H.R. 2024 apparently recognize, there are a few bad actors¹ who game the legal system by systematically concealing their identities while blanketing small and medium sized businesses with reams of coercive patent demands. These bad actors, often termed “trolls,” send hundreds or thousands of letters to retailers, product end-users and others alleging they are guilty of patent infringement. These letters often threaten that suit will be initiated if settlement or license payments are not promptly forthcoming in amounts that are usually less than the price of engaging counsel, and always less than the cost of mounting a successful defense. Because the strategy behind these demands is to avoid filing suit (whereupon all information relevant to the demands would have to be revealed), these schemers are able to withhold information that would reduce or even obviate any need to pay for a settlement, thus placing unsuspecting demand recipients at a substantial disadvantage. Examples of such withheld information include whether those making them truly have the right to

¹ Entities that have been characterized as seeking to “make money by threatening companies with expensive lawsuits and then using that cudgel, rather than the merits of a case, to extract a financial settlement” Rader, Chien, and Hricik, NYT, June 4, 2013, available at: :

http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?_r=0.

assert and license the patents, whether the conduct alleged to constitute an infringement is already subject to an implied or previously granted license, and whether the patent is subject to a “Fair, Reasonable and Non-Discriminatory” (“FRAND”) licensing obligation.

The Provisions of H.R. 2024

H.R. 2024 requires all entities to which a patent has been issued to periodically report: (a) the identities of owner(s) of the patent and any real party in interest (including any entity that has the legal right to enforce the patent through an infringement action); (b) any ultimate parent entity of an entity having the legal right to enforce the patent; and, (c) any entity that has a controlling interest in the enforcement of the patent (including an ultimate parent entity not otherwise identified). These reports would be required: (a) upon the issuance of a patent; (b) upon the payment of each of the three maintenance fees required to keep the patent in force; and, (c) within 90 days after any application for patent, patent, or any interest therein, is sold, granted, or conveyed.

H.R. 2024 would further impose sanctions for failure to comply that would prohibit the patent owner from being able to collect infringement damages for all infringements taking place prior to the date on which all requirements are met.

H.R. 2024 Burdens the Entire Patent Community in an Attempt to Corral a Few Bad Actors

Unfortunately, H.R. 2024 does not effectively target the above-described “troll” behavior, and does nothing to require the disclosure of much of the salient information needed to inform blanket-demand recipients that the payments sought are excessive, or perhaps even unnecessary. Instead, H.R. 2024 seeks to impose repetitive, onerous reporting requirements on millions of patent owners, even though over 99+% of them will never make such blanket patent demands. Moreover, as currently drafted, H.R. 2024 does nothing to distinguish such “trolling” behavior from routine commercial licensing practiced in good faith by millions of inventors and patentees who are not part of the problem to be addressed. Consequently, H.R. 2024 would threaten over two million inventors and patent owners with the risk of losing the right to collect damages from those who have infringed their patents if, for whatever reason, these new, technical reporting requirements are not met.

Before such a sweeping new regulatory burden is imposed on the entire inventor community, the nature and extent of the offending activity, and benefit of the proposed remedy, should be weighed against the burdens and costs imposed on the inventor community by the proposed legislation.

For fiscal year 2012, the USPTO reported that more than 540,000 patent applications were filed, and more than 275,000 patents were granted. For fiscal year 2011, the USPTO reported that more than 1.25 million patent applications were pending, and it

was estimated that as of May 2011, more than 2.1 million patents were in force (not expired).² Conservatively estimating that at least three reports would need to be submitted per patent, H.R. 2024 would require over 6 million reports be submitted to the USPTO to address the abuses of a handful of bad actors.

Nor should the burden and difficulty of compiling and systematically tracking the information required in each report by H.R. 2024 be underestimated. Patents owned by large corporations are frequently assigned or exclusively licensed to subsidiaries that in turn may further license such rights to multiple entities. Moreover, as a result of mergers, acquisitions, change of corporate names, etc., the difficulty of accurately determining and reporting such ownership information would be a significant burden for innovative companies. This is particularly true when there have been a series of such transactions over the lifespan of the patent, especially when records of such transactions were either not properly maintained or are no longer available. The matter becomes even further complicated with respect to patents filed from abroad. In order to ascertain the current ownership status of a patent owned by a foreign entity, it would be necessary for a US representative to communicate with his or her foreign counterpart, who then in turn will have to contact the company or individual owning the patent. This will often require translations and investigations implicating the laws of numerous countries. Moreover, if other nations were to follow the United States' example and impose similar such ownership data reporting, US inventors and companies could be forced to comply with the varying and complex laws and procedures of countries around the world. The resulting expense would have a significant adverse impact on the ability of American innovators to protect their products and services abroad, thus increasing the potential for infringement by foreign firms.

Moreover, identifying the entity that exercises control over the assertion of a patent is not as simple as one might think. In reality, it can be very difficult to determine who controls a patent. If there has been a complete transfer of all rights past, present, and future under the patent, the issue is straightforward—the person owning the patent usually exercises such control. However, where a patent is transferred and certain rights are retained by the transferor (which is very common), the issue is complex and the case law is less than clear. For example, the courts have held that the mere fact that an agreement is termed an “assignment” versus a “license” does not dictate whether the party receiving rights is the “owner.”

As another example, even if a license agreement purports to give a licensee the absolute right to sue, the licensee may not be deemed the “owner” with standing to do so. It depends upon whether the licensee has enough of the “bundle” of rights relating

² Of these 2.1 million U.S. patents, only about four thousand patent suits are filed yearly (4,015 in 2011), less than 2 tenths of one percent. Since court rules require the disclosure of the real party in interest at the time of case filing, H.R. 2024 provides no additional benefit to defendants.

to the patent to qualify as the patent's owner, and what is enough is a factual determination that may turn on many contingencies. Record or legal title holders may lose standing to bring actions under the patent if they have agreed to share some of the benefits and rights incident to a patent with a third party, such as an exclusive licensee, who may be recognized as the "equitable owner" of the patent. Indeed, identification of the party with standing is sufficiently murky that standing is not uncommonly a contested issue in patent cases. Moreover, even if the legal and/or equitable owner is known, contractual arrangements, corporate ownership interests, contingency agreements, partnerships, stock voting proxies and other instruments may effectively transfer control of the licensing or assertion of the patent to persons who are neither legal or equitable owners of a patent, and who would not normally be disclosed until litigation is commenced.

As a result, over the years, members of the Coalition for 21st Century Patent Reform (21C) have had a number of litigations where the issue of patent ownership has been challenged. Even in cases where 21C members believed they had sold the patent and were no longer the "owner," third parties have asserted that our members did not transfer sufficient rights and thus still the "owned" the patent. Indeed, the matter is so complicated that 21C members will sometimes name several different parties as plaintiffs just to be sure that at least the correct party is on the complaint.

A further disadvantage of H.R. 2024 is that it would apply retroactively to patents and ownership transactions that may date back twenty years or more. This is especially troublesome because millions of inventors, who were never told that they needed to register such information, may find that they are unable to locate the information necessary to comply with the additional administrative filings H.R. 2024 would impose. These inventors would be left without some or all of the patent infringement remedies they anticipated receiving, even against willful infringements perpetrated by intentional copyists. And while such administrative reporting requirements could be handled by larger corporations by undertaking the expense of implementing compliance systems, the impact of H.R. 2024 will likely fall most heavily on less sophisticated small and medium sized businesses, universities and independent inventors – those who will most often be the ones who innocently fail to meet these new requirements. Finally, because the proposed reporting requirements are anything but a model of clarity, patentees legitimately asserting their patents may now expect that yet another damages issue will be injected into the controversy, thereby driving the already high cost of litigation even higher.

The Information H.R. 2024 Would Require Can Easily Be Obtained Currently

HR 2024 is further troubling because, except in relatively few instances, sufficient information about patent ownership and control is already publicly available. First, when a patent application is filed, it must include the name of the inventor. If the invention has been assigned to a different person or entity, current law contains a powerful incentive for the assignee of the patent to record such assignment with the USPTO. See 35

U.S.C. 261. This is because the recordation of such assignment protects the rights of the assignee from a subsequent sale of the patent to a later purchaser who was unaware that it had been previously sold:

“An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.”

Many inventors are employed by corporations and routinely assign their inventions to the corporation in the normal course of their employment. In such cases, the name of the inventor and her employer (the assignee) will appear on the face of the patent and in the public assignment records maintained by the USPTO. In addition, any subsequent assignments of the patent will, if the assignee records the assignment, appear in the public assignment records maintained by the USPTO. Moreover, the vast majority of all patent applications are prepared and filed by a registered patent attorney or agent. The attorney's or agent's name, along with the name of their firm, will also usually appear on the face of the patent.

A company seeking to develop and market a new product or service can conduct an online search of all US patents. If this search reveals that one or more patents exist which a prospective product or service might infringe, the company can readily identify the owners of such patents directly from the assignee information printed on the face of each issued patent, as well as by searching the USPTO's assignment database or even by using a search engine like Google. In the rare instance where such search yields no information, the current owner of the patent can be readily found by contacting the inventor and/or her agent or attorney listed on the patent.

Not all assignees record their assignments with the USPTO for reasons that have nothing to do with hiding the ownership of their patents. This is particularly true for publicly traded companies with many subsidiaries that have received an assignment in the first instance, and that from time to time re-assign their patents among their subsidiaries so that they remain properly owned with respect to the business(es) to which they pertain. Of course, in these instances, there is no public concern since the identities of subsidiaries are a matter of public record, and it is of no moment to the public which subsidiary owns or is exclusively licensed under a particular patent because the ultimately controlling entity, the publicly traded parent, is readily identifiable.

Using such publicly available information, it is common for members of the public to lodge requests of the inventors, assignees and/or representatives of record to confirm that the patent is still owned by the recorded assignee. It is the experience of the 21C companies, who have been acquiring and licensing patents for many decades, that the vast majority of patent owners can be readily identified and will readily respond to queries regarding their willingness to license their patents. Such requests are usually

gladly accommodated, as most patentees are eager to be in touch with members of the public who might be interested in licensing or purchasing their patents, or at least to place inquiring parties on notice that a particular patent is not available for licensing to deter future infringement.

Other reasons also often result in the disclosure of the identities of parties who acquire and/or control patents. If the acquisition is material to the business of a publicly traded corporation, for example, securities laws may require it to be fully disclosed. Start-ups and others may do so for similar reasons, to satisfy the public's interest in the progress of their development efforts, to generate interest in their future products, and/or to fuel public interest in a possible initial public offering, private sale or other equity-raising activity. Again, a simple search on Google will turn up a great amount of information about the owner of a patent.

The Burdens Imposed by H.R. 2024 Far Outweigh Any Alleged Benefits

Notwithstanding all the other avenues available to the public to learn information about any given patent, to the extent a problem remains concerning the identity of those few patent owners that chose to hide their identities, it pales in comparison with the burdens the proposed solution would impose. The mandatory requirements imposed by H.R. 2024 to constantly monitor and provide the required ownership information, would impose an enormous burden on the more than 3 million patent applicants and patentees and generate a massive government database of information which would seldom be utilized.

Another detrimental side effect of H.R. 2024 is that it will benefit copyists by allowing them to determine whether there has been a failure to comply with a technical reporting requirement with respect to a patented invention that would permit them to infringe that patent secure in the knowledge that no damages would accrue unless and until the required information was submitted to the USPTO.

Accordingly, the case has simply not been made that there is any need to create the comprehensive system envisioned by H.R. 2024 that would impose such burdens. There is no data to suggest that the lack of patent ownership information is widespread or that any significant percentages of patent owners are not recording the assignments when they acquire ownership rights in patents. The funds expended to generate this largely unnecessary information will mean that resources that would otherwise be available for further research and development of innovative new products and services would be diverted to the creation of a somewhat redundant and almost entirely unnecessary government database.

Proposed §263 in Section 4 of the "Discussion Draft" published by House Judiciary Chair Goodlatte on May 23rd provides a much less burdensome alternative. It would address the coercive-demand-letter-business-model by requiring that persons who send multiple demand letters register certain information with the USPTO that should be

helpful to persons receiving demand letters in assessing how to respond to them. The 21C is supportive of the concept of proposed §263, but believes it should be amended to specifically target mass demand conduct without ensnaring routine licensing activity.

Conclusion

The ownership of patents is irrelevant to the issues that are most important to the public, which are (a) the nature of the disclosed invention, (b) the scope of the protection accorded the invention, (c) whether the patent is valid, and (d) whether any particular proposed conduct might infringe the patent. Indeed, it would be foolhardy for members of the public to rely upon the identity of a current title holder in deciding to engage in any risky conduct with respect to a patent, as patent ownership is easily transferrable, and even seemingly impecunious inventors now have ready access to counsel who routinely accept cases on contingency to press claims against infringers.

The Coalition for 21st Century Patent Reform is convinced that the imposition of the burdensome reporting requirements of H.R. 2024 would provide little, if any, practical value and would do nothing to force those who practice the “blanket extortion” business model into the open. This is particularly true when it is understood that such a database would not, and never could, reliably identify who controls decisions relating to the patent, as it is routine in licensing and other business transactions to agree to various terms that affect the right to license or derive revenue from a patent that do not have the effect of transferring legal title to a new owner.

The Coalition for 21st Century Patent Reform opposes passage of H.R. 2024.

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation’s leading manufacturers and researchers. The Coalition’s Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. Visit <http://www.patentsmatter.com> for more information.